

7859

TABLED 2012/2013 MEDIUM TERM REVENUE EXPENDITURE FRAMEWORK (MTREF)

Due to time constraints this report is submitted simultaneously to the Executive Committee and Council with the concurrence of the Mayor, Clr E F Mbatha and the Speaker, Clr M S Mnqayi.

PURPOSE

To submit to Council for approval, the Adopted 2012/2013 Budget and Medium Term Revenue and Expenditure Framework (MTREF).

IDP STRATEGY AND OBJECTIVES

DEVELOPMENT STRATEGY 5: SOUND FINANCIAL MANAGEMENT

Aim

- To ensure a healthy municipal revenue base that is aligned with the IDP, in order to ensure efficient, effective and sustainable service delivery and meeting the needs of the City's inhabitants

Goals

- Ensure that Financial Planning, Budgeting and Expenditure aligns with the IDP
- Increase the Municipal Revenue Base
- Maintain high levels of Debt Control
- Implement Revenue Enhancement measures

BACKGROUND

The Municipal Finance Management Act (MFMA), 2003 (No 56 of 2003) issues clear guidelines on the contents of the Budget Framework Plan. The Budget Framework Plan for the City of uMhlathuze has been adapted to incorporate these guidelines.

Section 17 of the Act highlights the following issues relating to the contents of the annual budget.

"1) *The annual budget must be a schedule in the **prescribed format** which should include the following: -*

- a) *realistically anticipated revenue for the budget year from each revenue source;*
- b) *appropriating expenditure for the budget year under the different votes of the municipality;*
- c) *setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;*
- d) *setting out -*
 - (i) *both estimated revenue and expenditure by vote for the current year; and*
 - (ii) *actual revenue and expenditure by vote for the financial year preceding the current year; and*

- e) *A statement containing any other information required by Section 215(3) of the Constitution or as may be prescribed.*
- 2) *The annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.*
- 3) *When an annual budget is tabled in terms of Section 16(2), it must be accompanied by the following documents:*
 - a) *Draft resolutions -*
 - (i) *Approving the budget of the municipality;*
 - (ii) *Imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and*
 - (iii) *Approving any other matter that may be prescribed;*
 - b) *measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;*
 - c) *a projection of cash flow for the budget year by revenue source, broken down per month;*
 - d) *any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of Section 34 of the Municipal Systems Act;*
 - e) *any proposed amendments to the budget-related policies of the municipality;*
 - f) *particulars of the municipality's investments;*
 - g) *any prescribed budget information on municipal entities under the sole or shared control of the municipality;*
 - h) *particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;*
 - i) *particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;*
 - j) *particulars of any proposed allocations or grants by the municipality to -*
 - (i) *other municipalities;*
 - (ii) *any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;*
 - (iii) *any other organs of state; and*
 - (iv) *any organisations or bodies referred to in section 67(1);*
 - k) *the proposed cost to the municipality for the budget year of the salary, allowances and benefits of -*

- (i) *Each political office-bearer of the municipality;*
- (ii) *councillors of the municipality; and*
- (iii) *the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;*
- l) *the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of -*
 - (i) *each member of the entity's board of directors; and*
 - (ii) *the chief executive officer and each senior manager of the entity; and*
- m) *any other supporting documentation as may be prescribed."*

As mentioned above, the MFMA Section 17 (1) refers to a prescribed format according to which the annual budget is required to be prepared. National Treasury has issued MFMA Circular No 54 (**DMS 693476**) in which this prescribed format has been set out. Furthermore, National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009. These regulations set out the manner in which Municipalities are required to prepare the 2012/2013 Budget.

The objectives of the budget formats reforms in terms of these regulations are:

- ❖ To ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the Municipal Finance Management Act (MFMA).
- ❖ To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of municipalities.
- ❖ To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability.
- ❖ To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.

DISCUSSION

This report and the supporting schedules will be forwarded to National and Provincial Treasury as required in terms of Section 22(b)(i) of the MFMA in both printed and electronic formats.

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PART 1 - ANNUAL BUDGET

1. MAYOR'S REPORT

The Mayor's presented the Executive Summary to Council.

2. BUDGET RELATED RESOLUTIONS

Refer to the recommendations of this report.

3. EXECUTIVE SUMMARY

It must be noted that prior to the adoption of the budget, National Treasury will review and make comments on the tabled budget. This assists the Municipality in ensuring quality when preparing the budget in terms of the MFMA. The National Treasury normally, from a quality perspective, assesses the budget against three criteria, being:

- Credibility
- Relevance and
- Sustainability

The 2012/13 Multi-year budget has been compiled with the above as a backdrop to ensure that key observations by National Treasury during their reviews of the 2010/11 and the 2011/12 Multi- year Budget are not repeated. The Budget Regulations Circulars No. 58 (issued in December 2011) and 59 (issued on 19 March 2012) have been taken into account during the compilation of this Budget as well as taking into account the linkage between the IDP to the National and Provincial priorities.

The 2012/13 Multi-year Budget for the uMhlathuze Municipality has followed the same trend as with the 2011/2012 budget, where emphasis is placed on basic and critical service delivery cost centres. Softer expenses are still not being considered until such time that the Municipality's financial situation is healthier.

The primary challenges as far as funding is concerned are:

- 1) The limit of leverage the Municipality has in borrowing money externally. No provision has been made for capital projects that will be funded from an external loan in the 2012/2013 financial year. The importance of this challenge cannot be over emphasised on two fronts:
 - a. The importance of proper assets management to allow for correctly prioritized assets maintenance programs to ensure that such assets do not fail is an imperative. This because it is not financially possible to be replacing or renewing components of assets that have not met their economic life span;
 - b. In the absence of the ability to borrow, internal reserves are very limited, hence very careful prioritization is required to ensure optimum usage of these limited reserves.
- 2) The very slow recovery of the economy which in turn slows down the sales of developed and undeveloped erven. If more disposable land is liquidated, Councils Capital Replacement Reserves would be increased;
- 3) The slow recovery of income from the sale of developed and undeveloped erven also slows down the cash flow recovery from the strategic capital funding error created in the 2007/8 and 2008/9 years. Solving that challenge from surpluses created in the Operating Budget alone is simply not possible. In this regard it is recommended that all future profits on land sales be split 50/50. Half to Capital Replacement Reserves and half to Working Capital Reserve until such time that Councils working capital is at

a minimum of one months creditors. Thereafter any future land sales profits will be allocated in full to the Capital Replacement Reserve;

- 4) Council is only now in its third year of the “pricing strategy” which is an endeavor to make tariffs more cost reflective, properly bench marked and strategically structured to support the universal approach to providing for the poor and providing free basic services to indigent consumers. The down side of the “pricing strategy” is that it is taking place in a depressed economy where increases should ideally be in line with inflation and not above the inflation rate; and
- 5) The absence of a financial implementation plan approved by Council for the new organizational structure is placing tremendous strain on the compilation of the operational budget. It is recommended that all Departments submit their five year implementation plan for the organogram to Council prior to the commencement of the 2013/14 budget process.

To address the needs of the local community, numerous strategic plans are in place, all of which fall under uMhlathuze’s five principle development objectives:

- Good governance
- Provision of Infrastructure and services
- Social and economic development
- Institutional development
- Sound financial management

The specific strategies and the related financial plan to achieve those strategic outputs and outcomes are a product of public participation processes including but not limited to the IDP public and forum meetings.

The Consolidated Operating and Capital Budget for the next three years are reflected as follows:

- 2012/2013 R2 087 million
- 2013/2014 R2 394 million
- 2014/2015 R2 643 million

The primary tactics taken in compiling the above budgets can be summarised as follows:

- A significant amount of restraint was placed on operating expenditure, which does not have an immediate effect on service delivery.
- Very little restraint was placed on Repairs and Maintenance.
- A significant amount of capital is deferred to the outer years, until such time that the Municipality can leverage capital funds without negatively affecting the Municipality’s credit rating i.e. Council’s debt exposure needs to be contained.
- Turning around the historical rates and service charges pricing risk. Although the municipality’s extremely tight hand on finances has had the advantage of ensuring efficiencies in many areas of the municipality, this stance has never allowed the administration to build up adequate reserves to carry the municipality during a cash flow squeeze as currently experienced during this recession. Turning this around within one budget period would not be fair on the community, hence it will be right sized over the next five years. There are essentially four elements to this pricing risk which need to be addressed in a phased basis:
 - implementing an equitable and fair balance in service charges (not applicable to rates), which on one hand must finance the respective service costs on an economic basis whilst simultaneously structured such that they accommodate

the poor consumers on a subsidised basis. (A challenge not faced by the private sector in their pricing);

- right sizing service charges and rates charges specifically to be more self-reliant and not dependent on cross subsidisation from the equitable share revenue, cross subsidisation from other municipal service charge revenues; and
- right sizing all sundry municipal tariffs that do not need to be cross-subsidised by rates revenue so as to ensure that they are cost reflective. This implies that very cheap tariffs that only provide a service to a specific group or groups of the community must be made more economic.

- Community upliftment and empowerment of rural areas.
- Economic development and attraction of investment.
- Maintenance of development standards in all areas.
- Opportunities for affordable housing.
- Protection of the poor.
- Balancing social and economic progress whilst protecting the integrity of the ecological environment.

SOCIAL INITIATIVES

For the purposes of the executive summary there are far too many social initiatives to mention, however the following are those felt particularly pertinent to mention in this report.

➤ **Indigent Relief**

- Free first 6 kilolitres of water.
- Free Rates if property is valued less than R75 000.
- Free Refuse if property is valued less than R75 000.
- Free Sewer if property is valued less than R75 000.
- Free 50 kilowatts of electricity.

➤ **Poor household relief**

Over and above the free services for indigent consumers, relief on a targeted basis is also provided to specific households whose socio/economic circumstances are dire. These cases are registered and managed by dedicated Municipal staff on an on-going basis.

➤ **Pensioners and Social Grantees**

- Date for application for rebates and exemptions before 31 May of each year.
- Rebate of R100 000 on Primary residential property on application.

➤ **Social Housing Projects**

Although not all the following housing projects are contained in this municipality's budget Council however plays a facilitation role for their implementation

The 2012/2013 Capital Budget amounting to **R147,2 million** will be financed from the following sources:

SOURCES OF FINANCE	2011/2012 ADJUSTED BUDGET	TABLED 2012/2013 BUDGET
	R' 000	R' 000
External Loans	59 751	0
Capital Replacement Reserve (CRR)	7 214	40 000
Public Contribution	6 199	0
Other Government Grants and Subsidies	20 783	18 544
Municipal Infrastructure Grant	68 824	84 018
Housing Reserve	4 000	4 700
TOTAL FINANCING	166 770	147 262

Capital Budget Summary

	2011/2012 ADJUSTED BUDGET	2012/2013 TABLED CAPITAL BUDGET
	R' 000	R' 000
Budget and Treasury Office	0	400
Corporate Services	30 816	6 019
Community and Social services	832	3 000
Planning and Development	2	40
Housing	20 000	8 925
Health	0	60
Public Safety	1 455	5 300
Sport and Recreation	2 313	3 000
Waste Man.- Sanitation	62 834	58 870
Waste Man.- Solid waste	0	3 600
Road Transport	16 321	6 700
Water	19 851	38 448
Electricity	12 343	12 900
Total	166 770	147 262

The 2012/2013 Operational Budget amounting to **R1 940 080 300** comprises of the following elements:

EXPENDITURE PER CATEGORY	ADOPTED ORIGINAL BUDGET 2011/2012	ADOPTED ADJUSTMENT BUDGET 2011/2012	% OF ADJ BUDGET	TABLED ORIGINAL BUDGET 2012/2013	% OF BUDGET
	R'000	R'000		R'000	
Employee related costs	410 824	410 247	23,47%	456 428	23,53%
Remuneration of Councillors	15 587	16 551	0,95%	17 431	0,90%
Debt Impairment	646	745	0,04%	847	0,04%
Bulk Purchases - Electricity	804 610	700 743	40,10%	801 662	41,32%
Bulk Purchases - Water	83 435	83 871	4,80%	91 224	4,70%
Contracted Services	79 164	80 654	4,61%	86 112	4,44%
Other Expenditure	300 322	298 061	17,05%	376 615	19,41%
Transfers and grants	7 100	7 018	0,40%	8 053	0,42%
Repairs and maintenance	226 309	206 159	11,80%	240 358	12,39%
Finance Charges	95 844	90 413	5,17%	82 441	4,25%
Depreciation and Offsetting of depreciation	69 751	95 765	5,48%	112 767	5,81%
Contributions to Capital Replacement Reserve (CRR)	32 444	32 444	1,86%	11 500	0,59%
Contributions Other	93 123	93 123	5,33%	108 307	5,58%
Recharged	(359 473)	(368 141)	(21,06%)	(453 665)	(23,38%)
TOTAL	1 859 685	1 747 653	100%	1 940 080	100%

The sources of funding the above comprise of the following revenue categories:

REVENUE PER CATEGORY	ADOPTED ORIGINAL BUDGET 2011/2012	ADOPTED ADJUSTMENT BUDGET 2011/2012	% OF ADJ BUDGET	TABLED ORIGINAL BUDGET 2012/2013	% OF BUDGET
	R'000	R'000		R'000	
Rates	198 780	204 650	11,81%	231 260	11,91%
Service Charges - Electricity Revenue	1 078 996	961 000	55,47%	1 077 000	55,45%
Service Charges - Water Revenue	164 700	140 740	8,12%	159 445	8,21%
Service Charges - Sanitation Revenue	64 400	63 400	3,66%	69 300	3,57%
Service Charges - Refuse Revenue	44 400	45 700	2,64%	51 300	2,64%
Service Charges - Other Revenue	11 514	12 209	0,70%	14 084	0,73%
Operating Grants and Subsidies - Equitable Share	161 654	161 654	9,33%	179 139	9,22%
Operating Grants and Subsidies - Other Grants	8 249	18 779	1,08%	21 149	1,09%
Rental of facilities and equipment	7 299	13 096	0,76%	6 130	0,32%
Interest Received - External Investments	595	1 200	0,07%	1 648	0,08%
Interest Received - Outstanding debtors	1 419	1 360	0,08%	1 317	0,07%
Fines	2 053	2 047	0,12%	2 052	0,11%
Licenses and permits	1 600	1 639	0,09%	1 686	0,09%
Agency services	3 900	5 300	0,31%	5 300	0,27%
Electricity transfer to Rates Service	93 329	93 329	5,39%	108 688	5,60%
Other Revenue	18 382	6 491	0,37%	12 654	0,65%
TOTAL	1 861 270	1 732 594	100%	1 942 152	100%

The impact of the 2012/2013 Operating Budget is summarised in the following overview:

SERVICE	Percentage
Rates	13,5%
Refuse Residential	13%
Refuse Other	13%
Sewerage	13%
Electricity	12%
Water: Purified Domestic	13%
Water: Purified Other Consumers	13,5%
Water: Clarified	13%
General	5,5%

The specific impact on the residential ratepayers on an average consumer account can be summarised as follows:

	UMHLATHUZE
High	11,31%
Medium	11,02%
Low	10,26%

The higher than inflation increase is brought about primarily by the following factors:

- Accommodating one of the Turnaround Strategy objectives is the Municipality's Rates and Service Charges pricing risk.
- Accommodating the above inflation increase of Eskom's bulk purchase electricity tariffs. As per National Treasury's MFMA circular number 59, they have advised that Eskom price of bulk electricity supplied to municipalities will increase by 13.5 per cent on 1 July 2012.

In an attempt to cushion as much as possible the impact of the above on the community, the following are the primary interventions arising from the Turnaround Strategy:

- No borrowing for the 2012/2013 financial year.
- Strategically looking at opportunity revenue sources foregone. Cost centres of which are financed by the whole rate payer tax base but cost centres of which only support the interests of a specific sector of the community. Tariffs here need to be more cost reflective and not subsidised by the ratepayers to the extent that they currently are.
- Strategically looking at the restructuring of water and electricity tariffs so as to ensure that they more equitably satisfy both the objectives of being income generating while simultaneously satisfying the role of protecting the poor. For example for the coming year a five tiered inclining block tariff is introduced for residential electricity.

These are over and above the existing relief measures employed for our indigent, handicapped and pension consumer relief:

- 50 KWH (units) of electricity free for applicants whose usage of electricity amounts to an average of no more than 1 800 units per annum.

- Free water for all consumers for the first 6 000 liters of water per month.
- Free rates if property value is less than R75 000.
- Free refuse charge if property is valued less than R75 000.
- Free sewer charge if property is valued less than R75 000.
- All rural communities have strategically placed refuse skips wherein refuse can be placed free of charge.
- By implication the very nature of property valuation allows rates payable by communities living in less formal area to be minimal.
- Targeted indigent support for very poor and child run households.

National Treasury issued a Municipal Budget Circular Number 58 (**DMS 770373**) for the 2012/2013 MTREF on 14 December 2011. A further circular was issued by National Treasury on 19 March 2012 (**DMS 788439**) These circulars provide further guidance to municipalities for the preparation of their 2011/2012 Budgets and MTREF.

The Circular covers various topics amongst others:

- Taking the 2011 Local Government and Expenditure review forward
 - o Revenue management
 - o Collecting outstanding debts
 - o Pricing services correctly
 - o Under spending on repairs and maintenance
 - o Spending on non-priorities
- National priority - creating decent employment opportunities
- Additional allocations to Local government
 - o Transfer to local government grow by R5 billion
- Procurement reforms and fighting corruption
- Revising rates, tariffs and other charges
- Funding choices and management issues
 - o Eliminating non-priority spending
 - o Benefits to Mayors and Councillors
- Conditional transfers to municipalities
- Municipal Budget and reporting regulations
- Budget process and submissions for the 2012/13 MTREF

In January 2010, Cabinet adopted 12 outcomes within which to frame public service delivery priorities and targets.

All municipalities are expected to take the 12 outcomes into consideration when reviewing their IDPs and developing their annual budgets for the 2012/2013 MTREF.

The following are the 12 outcomes of government and the role of local government:

Outcome	Role of local government
1) Improve the quality of basic education	- o Facilitate the building of new schools by: • Participating in needs assessments • Identifying appropriate land • Facilitating zoning and planning processes - o Facilitate the eradication of municipal service backlogs in schools by extending appropriate bulk infrastructure and installing connections.
2) Improve health and life expectancy	- o Many municipalities perform health functions on behalf of provinces. - o Strengthen effectiveness of health services by specifically enhancing TB treatments and expanding HIV and AIDS prevention and treatments. - o Improve Community Health Services infrastructure by providing clean water, sanitation and waste removal services.
3) All people in South Africa protected and feel safe	- o Facilitate the development of safer communities through better planning and enforcement of municipal by-laws. - o Direct the traffic control function towards policing high risk violations - rather than revenue collection.
4) Decent employment through inclusive economic growth	- o Create an enabling environment for investment by streamlining planning application processes. - o Ensure proper maintenance and rehabilitation of essential services infrastructure. - o Ensure proper implementation of the EPWP at municipal level. - o Design service delivery processes to be labour intensive. - o Improve procurement systems to eliminate corruption and ensure value for money. - o Utilise community structures to provide services.
5) A skilled and capable workforce to support inclusive growth	- o Develop and extend intern and work experience programmes. - o Link municipal procurement to skills development initiatives.
6) An efficient, competitive and responsive economic infrastructure network	- o Ring-fence water, electricity and sanitation functions so as to facilitate cost-reflecting pricing of these services. - o Ensure urban spatial plans provide for commuter rail corridors as well as other modes of public transport. - o Maintain and expand water purification works and waste water treatment works in line with growing demand. - o Cities to prepare to receive the devolved public transport function. - o Improve maintenance of municipal road networks.
7) Vibrant, equitable and sustainable rural communities and food security	- o Facilitate the development of local markets for agricultural produce. - o Improve transport links with urban centres so as to ensure better economic integration. - o Promote home production to enhance food security. - o Ensure effective spending of grants for funding extension of access to basic services.

Outcome	Role of local government
8) Sustainable human settlements and improved quality of household life	- o Cities must prepare to be accredited for the housing function. - o Develop spatial plans to ensure new housing developments are in line with national policy on integrated human settlements. - o Participate in the identification of suitable land for social housing. - o Ensure capital budgets are appropriately prioritised to maintain existing services and extend services.
9) A responsive and accountable and effective local government system	- o Adopt IDP planning processes appropriate to the capacity and sophistication of the municipality. - o Implement the community work programme. - o Ensure ward committees are representative and fully involved in the community consultation processes around the IDP, budget and other strategic service delivery issues. - o Improve municipal financial and administrative capacity by implementing competency norms and standards and acting against incompetence and corruption.
10) Protection and enhancement of environmental assets and natural resources	- o Develop and implement water management plans to reduce water losses. - o Ensure effective maintenance and rehabilitation of infrastructure. - o Run water and electricity saving awareness campaigns. - o Ensure proper management of municipal commonage and urban open spaces. - o Ensure development does not take place on wetlands.
11) A better South Africa, a better and safer Africa and world; and	- o Role of local government is fairly limited in this area. - o Must concentrate on: • Ensuring basic infrastructure is in place and properly maintained. • Creating an enabling environment for investment.
12) A developed-orientated public service and inclusive citizenship.	- o Continue to develop performance monitoring and management systems. - o Comply with legal financial reporting requirements. - o Review municipal expenditures to eliminate wastage. - o Ensure Councils behave in ways to restore community trust in local government.

4. **ABBREVIATIONS DEFINED**

ABBREVIATION	DEFINITION
CPI	Consumer Price Index
CRR	Capital Replacement Reserve
DORA	Annual Division of Revenue Act is the Act of Parliament which must be enacted annually in terms of section 214(1) of the Constitution
DWA	Department of Water Affairs
EFF	External Financing Fund
GFS	Government Finance Statistics. In order to facilitate comparisons, GFS functions provide a reasonably high level grouping of related service delivery activities for Local Government. (MFMA Circular No 12) (DMS 347143).
GRAP	Generally Recognised Accounting Practices
IDP	Integrated Development Plan
LED	Local Economic Development
MFMA	Municipal Finance Management Act, No. 56 of 2003
MIG	Municipal Infrastructure Grant
MTREF	Medium Term Revenue and Expenditure Framework
QUALITY CERTIFICATE	In relation to a municipality is a certificate issued and signed by the municipal manager confirming the accuracy and reliability of the contents of document prepared or issued by the municipality
SDBIP	Service Delivery Budget Implementation Plan which is a detailed plan approved by the Mayor of a Municipality in terms of section 53(1)(c)(ii) for implementing the municipality's delivery of municipal services and its annual budget
VOTE	(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and (b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

5. **ANNUAL BUDGET TABLES**

The following budget statement tables (**DMS 783382**) - **Annexures B1 to B53** respectively have been prepared in accordance with the Municipal Budgeting and Reporting Regulations:

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6. **OVERVIEW OF ANNUAL BUDGET PROCESS**

□ Political oversight of the budget process

Section 53 of the MFMA requires that the Mayor provides general political guidance over the budget process and the priorities that must guide the preparation of the budget. In compliance with this, meetings are held regularly between the Mayor and the Chief Financial Officer regarding the budget process and the progress thereon.

□ Schedule of Key Deadlines relating to budget process [MFMA S21(1)(b)]

The Act requires the formal budget process to start with the tabling by the Mayor in Council, a time schedule outlining key deadlines for the preparation, tabling and approving of the annual budget. Council Resolution 7449 dated 6 September 2011 (RPT 150540) contains the detailed time schedule.

□ Process used to integrate the review of the IDP and preparation of the budget

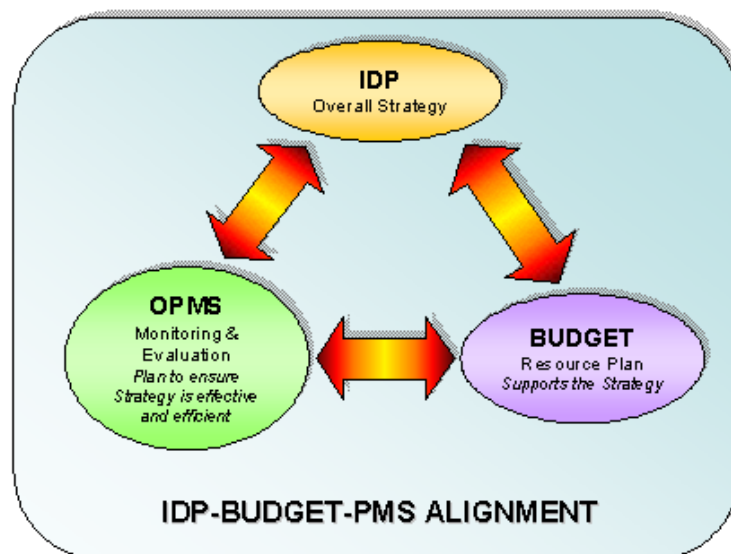
The annual review of the IDP is a legislative requirement in terms of Section 34 of the Municipal Systems Act No 32 of 2000. It stipulates that a Municipal Council must review its integrated plan annually in accordance with an assessment of its performance measurements in terms of Section 41; and to the extent that changing circumstances so demand; and may amend its integrated development plan in accordance with a prescribed process. The Annual Budget and the IDP are inextricably linked to one another, something that has been formalised through the promulgation of the Municipal Finance Management Act (2004).

The IDP when implemented correctly is a good tool for promoting the redistribution of income and an effective instrument to strengthen the relationship between local government and the local community. The IDP and Budget Public Participation Processes are an arena for co-management in which the community and government decide together where and how the city's resources and investments will be allocated. Public discussion and decision making concerning the priority areas of government investment has been making it possible to highlight priorities, insisting on administrative transparency and changing the way residents relate to their municipality.

The IDP in uMhlathuze sets the basis for translating into financial terms and activities that which will deliver services. The overall objectives of budget planning cycle of the municipality has managed to co-ordinate the implementation of the IDP, which needs to ensure that the budget is affordable to deliver on the expectations of the community.

The IDP consultation process involved the clustering of a few wards in order to afford an opportunity for a hearing of the needs that will be presented later. The attendance of these meetings ensures that the IDP priorities are allocated, programmes and projects for service delivery planned. The budget and IDP processes involve/links the monitoring process throughout the year to ensure the IDP priorities are being achieved. The graph below shows the link between the IDP and budget planning processes that has created a complex and dynamic management environment for the municipality.

Figure: The integration of the IDP, Budget and PMS



❑ **Process for consultations, stakeholders involved and timing, number and type of consultations**

The IDP approach has been based on the principle of inclusive and representative consultation and/or participation of all residents, communities and stakeholders within the municipal area, as well as representatives from other spheres of Government, sector specialists, and other resource persons. The Municipality followed structured participation through organisations and legitimate representatives. Direct participation of residents and community members through public meetings were organised by both Councillors and officials to listen to their concerns and their needs.

uMhlathuze Municipality's communication strategy entails that:

- Ward Committee members and Councillors are part of the preparation of ward meetings.
- IDP community sessions are held in venues closest to the community;
- Release of print media press when required to local and provincial newspapers are in Zulu and English;
- SMS's, flyers and loud hailing are also used as a strategy to sensitise the community to attend the IDP meetings;
- Monthly internal and external newsletters are used to publish IDP/Budget news; and
- Council provides transport for community members to respective venues.

A total of eleven meetings were held with wards clustered together. Institutionalised participation was catered for in the form of forum meetings. These representatives were given enough time to consult with their communities or their membership before discussing relevant issues in the IDP Representative Forum.

Three alignment meetings with service providers were held to ensure that the IDP is in line with National, Provincial and District policies, strategies and programmes. This was to ensure that they consider and take into account challenges faced so that they may consider our municipal needs for the allocation of conditional grants, departmental budget assistance and other needs.

□ **Budget Steering Committee**

In terms of the budget regulations, the Mayor is required to establish a Budget Steering Committee, which provides technical assistance to the Mayor.

Council's Budget steering committee consists of the following members:

- Mayor
- Deputy Mayor
- Speaker
- Municipal Manager
- Chief Financial Officer
- All Deputy Municipal Managers

□ **Process for tabling the budget in Council for consideration of approval**

In terms of Section 16(2) of the MFMA, the Mayor is required to table the annual budget at a Council meeting at least 90 days before the start of the budget year. The Tabled 2012/2013 Medium Term Revenue and Expenditure Framework (MTREF) will be tabled to the Executive Committee and Council on 28 March 2012.

In addition Section 22(a) of the MFMA requires that immediately after an annual budget is tabled in Council as per Section 16(2), the Accounting Officer of the Municipality must make public the annual budget and invite the local community to submit representations in connection with the budget.

An insert will be included in the local newspapers highlighting the Tabled 2012/2013 Medium Term Revenue and Expenditure Framework (MTREF) thereby inviting comments from the public.

Furthermore, the Executive Committee will approve a schedule of public meetings to be held at various locations to provide an opportunity for the public to comment on the budget.

A meeting is also scheduled with the AmaKhosi and their leadership in order to strengthen Council's relationship with traditional leaders.

The dual approach that provides for the engagement of Ward Committees firstly and thereafter the broad community, proved to be a success in the previous 4 years' budget public participation processes. It created a sense of ownership and belonging to the Ward Committees and allowed them to assist in various ways during the process of broader community participation.

The administrative planning process also took into consideration the cluster approach that was used in the previous 4 years' budget public participation. The advantage and benefit for the use of clusters is that it creates a shared sense of belonging amongst

the citizens as well as an understanding of the diverse issues and needs amongst the community of the Municipality.

The following meetings are proposed for the 2011/2012 budget public participation meetings:

Cluster	Wards	Venue	Date	Time
1	Amakhosi	R/Bay Civic Centre (Auditorium)	11 April 2012 (Wednesday)	10:00
1	Ward Committees	R/Bay Civic Centre (Auditorium)	12 April 2012 (Thursday)	18:00
10 & 11	9,24,25,27,28,29	Ngwelezane Community Hall	15 April 2012 (Sunday)	14:00
5	1,2,3,4 and 26	R/Bay Civic Centre (Auditorium)	18 April 2012 (Wednesday)	18:00
6	9,23 and portion of 24	Empangeni Civic Hall	19 April 2012 (Thursday)	18:00
2 & 3	5,6,7,8	eNseleni Community Hall	21 April 2012 (Saturday)	14:00
8	15,16,17,21,22	eSikhaleni F E T Hall (College)	22 April 2012 (Sunday)	14:00
7	12,13,14	Madlankala Community Hall	28 April 2012 (Saturday)	14:00
4	10,11,30	Vulindlela Community Hall	29 April 2012 (Sunday)	14:00
12	Stakeholders	R/Bay Civic Centre (Auditorium)	2 May 2012 (Wednesday)	18:00
9	18,19,20	Kwa - Hlanganani Community Hall	6 May 2012 (Sunday)	14:00

The above dates are in draft and will be amended as required at the at Executive Committee meeting, as the Budget Public Participation Report (RPT 151677) will serve together with this Budget report.

The programme is an endeavour to ensure maximum participation, particularly by Council's role-players. The programme is rigorous, extensive and gruelling due to time constraints as previously mentioned, largely exacerbated by public holidays that in the main create extended weekends that would make it difficult to hold meetings on those days, i.e. Easter Weekend, Freedom Day and Workers.

❑ **Process for approving the budget**

In terms of Section 24 of the MFMA, the Municipal Council is required to approve the annual budget at least 30 days before the start of the budget year.

Amendments may be made to the Tabled 2012/2013 Medium Term Revenue and Expenditure Framework (MTREF) following the public participation meetings held.

The Adopted 2012/2013 Medium Term Revenue and Expenditure Framework (MTREF) will serve at the Executive Committee and Council will subsequently consider the approval of the Adopted 2011/2012 Medium Term Revenue and Expenditure Framework (MTREF) in May 2012.

❑ **Process and media that will be used to provide information on the budget to the community and methods to be employed to make the budget document available**

- An insert will be included in the local newspapers to highlight the Draft 2012/2013 Budget.
- A full page insert highlighting the key points of the 2012/2013 Medium Term Revenue and Expenditure Framework (MTREF) will be included in the local newspapers.
- The 2012/2013 Medium Term Revenue and Expenditure Framework (MTREF) will be highlighted in Council's April 2012 uMhlathuze newsletter.
- Notification of the public participation meetings will be advertised in the local newspapers.
- Detailed copies of the 2012/2013 Medium Term Revenue and Expenditure Framework (MTREF) were made available for inspection at all municipal offices and libraries within the City of uMhlathuze.
- The 2012/2013 Medium Term Revenue and Expenditure Framework (MTREF) will also made available on Council's website www.richemp.org.za

7. OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH THE INTEGRATED DEVELOPMENT PLAN

The annual review of the IDP is a legislative requirement in terms of Section 34 of the Municipal Systems Act No 32 of 2000. It stipulates that a Municipal Council must review its integrated plan annually in accordance with an assessment of its performance measurements in terms of Section 41; and to the extent that changing circumstances so demand; and may amend its integrated development plan in accordance with a prescribed process. The Annual Budget and the IDP are inextricably linked to one another, something that has been formalised through the promulgation of the Municipal Finance Management Act (2004). Chapter 4 and Section 21 (1) of the Municipal Finance Management Act (MFMA) indicate that:

“(1) The Mayor of a municipality must-

...(b) at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for the

(i) The preparation, tabling and approval of the annual budget;

- (ii) *The annual review of:*
- (aa) *The integrated development plan in terms of section 34 of the Municipal Systems Act; and*
- (bb) *The budget related policies.*
- (iii) *The tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and*
- (iv) *The consultative processes forming part of the processes referred to in subparagraphs (i), (ii) and (iii)."*

The Integrated Development Plan (IDP) outlines the city's development objectives and provides a policy framework that guides management in decision making related to **budgeting** and planning of uMhlathuze. In terms of the uMhlathuze Municipality we have five strategies within the IDP that are outcomes based: -

- **Good Governance** focuses on ensuring democratic, responsible, sustainable and equitable municipal governance and also to ensure social upliftment of its communities, in order to achieve a safe, secure and healthy environment.
- **Infrastructure and Services Provision** relates to the maintaining of existing infrastructure and to provide new infrastructure in a sustainable manner.
- **Social and Economic Development** leads to the improvement of physical and functional integration within the City of uMhlathuze, whilst protecting the City's natural resources and assets through effective Environmental Management. To create opportunities through economic growth and development within the City of uMhlathuze and to promote economic upliftment of its communities
- **Institutional Development** ensures institutional transformation as well as efficient and effective service delivery.
- **Sound Financial Management** ensures a healthy municipal revenue base that is aligned with the IDP, in order to ensure efficient, effective and sustainable service delivery and meeting the needs of the City's inhabitants.

Within these strategic objectives, various programmes have been identified through the review process of the Integrated Development Plan. These programmes will form the main focus areas in terms of the financial plan for the Integrated Development Plan. This process of reconciling Council's Financial Plan Budget to its Integrated Development Plan created a whole new method of budgeting. Council can now ensure that priorities within the budget are focused towards its strategic objectives.

Input from all stakeholders is considered and prioritisation takes place. In compliance with the Municipal Structures Act and MFMA the city's budget must be informed by and aligned to the IDP objectives. The budgetary allocations for both capital and operating expenditure need to be undertaken in a manner that will not only ensure that the IDP outcomes are achieved but also leads to the city's vision being realised. This has ensured that the IDP directs the development and implementation of projects.

The municipality ensured that the key priorities of the IDP are given a bigger slice in terms of new spending. The document has to be aligned to the budget via programmes and action plan.

(Source - 2011/2012 IDP Review contained on DMS 713197)

8. MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

Section 69(3)(a) of the Municipal Finance Management Act, 2003 (MFMA) requires the Accounting Officer to submit a Draft Service Delivery and Budget Implementation Plan (SDBIP) to the Mayor no later than 14 days after the approval of the budget and drafts of the performance agreement as required in terms of section 57 (1) (b) of the Municipal Systems Act. The Mayor must subsequently approve the SDBIP no later than 28 days after the approval of the budget in accordance with Section 53(1)(c)(ii) of the MFMA.

Section 1 (1) of the MFMA defines the Service Delivery and Budget Implementation Plan (SDBIP) as:

“a detailed plan approved by the mayor of a municipality in terms of Section 53(1)(c)(ii) for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate-

- (a) projections for each month of-*
 - (i) revenue to be collected, by source;*
 - (ii) operational and capital expenditure, by vote; and*
- (b) service delivery targets and performance indicators for each quarter”.*

The SDBIP provides the vital link between the Mayor, Council (executive) and the Administration, and facilitates the process for holding management accountable for its performance. The SDBIP is a management, implementation and monitoring tool that will assist the Mayor, Councillors, Municipal Manager, Senior Managers and community.

A properly formulated SDBIP will ensure that appropriate information is circulated internally and externally for purposes of monitoring the execution of the budget, performance of senior management and achievement of the strategic objectives set by council.

It enables the Municipal Manager to monitor the performance of Senior Managers, the Mayor to monitor the performance of the Municipal Manager, and for the community to monitor the performance of the Municipality.

The SDBIP should therefore determine (and be consistent with) the performance agreements between the Mayor and the Municipal Manager and the Municipal Manager and Senior Managers determined at the start of every financial year and approved by the Mayor.

The SDBIP has been segmented into five components. These are:

- ❑ Component 1: Monthly projections of revenue to be collected for each source; **Annexure F (DMS 789853)**
- ❑ Component 2: Monthly projections of expenditure (operating and capital) and revenue for each vote; **Annexure G (DMS 789853)**
- ❑ Component 3: Draft annual projections of service delivery targets and performance indicators for each vote; **Annexure H1 - 6 (DMS 789853)**
- ❑ Component 4: Ward information for expenditure and service delivery; and;
- ❑ Component 5: Detailed capital works plan broken down by ward over three years. **Annexure I (DMS 789853)**
- ❑ Component 4: Ward information for expenditure and service delivery is not presented in this report. This component requires that Component 3 be divided into Wards, which in reality is not practical. National Treasury has indicated that a revised MFMA Circular will be issued during the course of 2013 to review the SDBIP.

It is vitally important for Council to note that these components of the SDBIP are primary indicators of the Municipality's performance on the annual budget. In this regard Councillors are encouraged to scrutinise the various components and pose questions where it is deemed necessary. This form of in-year monitoring should be able to uncover major problems and is aimed at ensuring that the Mayor and Municipal Manager are taking corrective steps when any unanticipated problems arise. The SDBIP thus serves a critical role to focus both the administration and Council on outputs by providing clarity of service delivery expectations, expenditure and revenue requirements, service delivery targets and performance indicators.

9. OVERVIEW OF BUDGET- RELATED POLICIES

9.1 Summary of Debtors Age Balances

The summary of debtors' age analysis (excluding Year end Debtors) at 29 February 2012 is:

DEBTORS AGE ANALYSIS BY CATEGORY	0 - 30 DAYS	31 - 60 DAYS	61 - 90 DAYS	OVER 90 DAYS	TOTAL
	R	R	R	R	R
Government	9 931 582	219 078	836 344	4 226 985	15 213 989
Business	97 604 831	8 666 165	8 292 797	13 735 068	128 298 861
Households	31 719 297	2 670 747	1 841 711	22 177 243	58 408 998
Other	4 624 909	393 602	691 813	3 581 850	9 292 174
Total	143 880 619	11 949 592	11 662 665	43 721 146	211 214 022
%	68%	6%	6%	21%	

As can be seen the primary area of concern is the "Households" (Residential consumers)

Collection rate in days: 39,61

Turnover Rate: 10,85%

The write-off of bad debt for the 2011/2012 financial year is expected to amount to approximately R165 350.

Council's provision for doubtful debts amounts to R16,5 million, which is in line with Council's Credit Control Policy that states that this provision be determined annually during the budget review process, subject to a minimum of 30% of Debtors, 60 days and older.

9.2 Cross Subsidisation across Services

Cross subsidisation across services takes place by means of Trading Services surpluses being utilised to alleviate the pressure on mainly non-remunerative services.

9.3 Indigent Support

The key elements within Council's Indigent Policy are summarised as follows:

Universal approach:

- ❖ Rates will be determined as a factor of the market value of a property. In terms of the Property Rates Act, the first R15 000 of the valuation of residential property is exempt from rates.
- ❖ An additional amount of R60 000 is also exempt from rates, which means that the first R75 000 of all developed residential properties with a valuation of R350 000 or lower are exempt from paying rates.

- ❖ Other indigent customers not supported through this approach are accommodated within the targeted approach.

Targeted approach:

- ❖ Outstanding accounts in respect of debtors, which are found to be indigent, are written off. These debtors are then only entitled to Council's free basic services (6 kl of water and 50 kWh of electricity).
- ❖ Free electricity (50 kWh) allocations in accordance with the Free Basic Electricity Policy.
- ❖ The same base value detailed in the universal approach listed above, will be used to determine rebates in respect of Refuse and Sewerage charges. On this basis, residential property valued at R75 000 or less will be exempted from refuse and sewer charges.
- ❖ Properties valued between R75 001 and R150 000 will receive a rebate of 25% in respect of the sewer and refuse charges.
- ❖ Properties valued at R150 001 and higher will pay the normal tariff.
- ❖ Free water of 200 liters per day (6 kiloliters pm) is given to all households.

9.4 Rates Policy

State the following:

"5. Annual review of rates policy.—

- (1) A municipal council must annually review, and if necessary, amend its rates policy. Any amendments to a rates policy must accompany the municipality's annual budget when it is tabled in the council in terms of section 16 (2) of the Municipal Finance Management Act.*
- (2) Section 3 (3) to (6), read with the necessary changes as the context may require, apply to any amendment of a rates policy. Community participation in amendments to a rates policy must be effected through the municipality's annual budget process in terms of sections 22 and 23 of the Municipal Finance Management Act."*

No changes are proposed for the 2012/2013 financial year. A copy of the draft policy, is included in **DMS 789516 Annexure E**.

9.5 Credit Control Policy

An approved credit control policy is in operation within the City of uMhlathuze. The policy and the actions taken in terms of the policy are producing positive results despite the current harsh economic climate.

9.6 Uniform Tariff Policy

No amendments are proposed to the policy, as all provisions therein remain applicable and relevant.

The detailed policies are not included in this budget documentation. However, they are available on request by Councillors and made publicly available at all Council Offices within the City of uMhlathuze and on the website www.richemp.org.za.

Below is a schedule of Council's budget related policies

Name of Policy	Type	Reference	Date of Council adoption
Tariff of Charges	Draft	DMS 705773	In progress To serve at Council with Tabled and Adopted 2012/13 Medium Term Revenue and Expenditure Framework (MTREF) in March 2012 and May 2012 respectively.
Credit Management Policy	Current	RPT 141442 RPT142617 (Bylaws)	Council Resolution 4650 dated 3 July 2007.
Supply Chain Management Policy	Current	RPT 137944 RPT 145110 DMS 439330 (review)	Council Resolution 3386 dated 4 October 2005. Council Resolution 6174 dated 4 August 2009.
Investment and Cash Management Policy	Current	RPT 141398 DMS 454662 DMS 458007 Review	Council Resolution 4600 dated 3 July 2007. Council Resolution 6336 dated 3 November 2009.
Indigent Policy	Current	RPT 147125 DMS 586841	Council Resolution 6733 dated 6 July 2010.
Tariff Policy	Current	DMS 418186	Council Resolution 4169 dated 7 November 2006.
Rates Policy	Current	DMS 473856 (2008/2009) DMS 566699 (2009/2010) DMS 637432 (2010/2011) DMS 701131 (2011/2012) DMS 789696 (2012/2013)	Council Resolution 4169 dated 29 May 2008. Council Resolution 4914 dated 4 December 2009. Council Resolution 6686 dated 8 June 2010. Adopted Budget - Council Resolution 7172 dated 1 March 2011. Tabled Budget in progress.
Fraud Prevention Policy	Current	RPT 143608 DMS 497798	Council Resolution 6084 dated 9 June 2009.
Virement Policy (transfers of funds)	Current	RPT 147986 DMS 635065	Council Resolution 6737 dated 6 July 2010. Paragraph 5.7 of policy amended in terms of Council resolution 7524 dated 4 October 2011.
Fixed Asset Management Policy	Current	RPT 145981 DMS 562968	Council Resolution 6048 dated 9 June 2009.

10. OVERVIEW OF BUDGET ASSUMPTIONS

Key budget assumptions and guidelines used in developing the multi-year Capital Operating budgets are:

10.1 Capital Budget

The Municipality is expected to table a credible and sustainable budget. This multi-year budget should be outputs/outcomes focused and consistent with the form required in terms of the MFMA and supported by the budget and revenue related policies. In this regard, we emphasise the need to ensure that revenue projections are realistic and achievable, allocations from other sources are consistent with the Division of Revenue Act, provincial, tariffs and rates are raised taking into account affordability levels of the community, the backlogs in infrastructure are being addressed, whilst maintaining a balance between new and rehabilitation of assets, sufficient provision is made for maintenance of existing assets, provision for working capital, administrative overheads are minimised and are managed downwards over the next financial year.

Therefore the amended processes for this budget year are as follows:

- A. Departmental submissions for the 2012/2013 MTREF capital projects amounted to R1,4 billion.
- B. A request was sent out to the departments to re-prioritise capital budget to an affordable amount of R40 million CRR funded capital.
- C. After an unsuccessful attempt, Council's IDP priority weighting was applied to allocate capital funding across the various services. The table below sets out the weighting and the budget allocation and emanates in the Tabled 2012/2013 MTREF Capital Budget as per Annexure C (DMS 789967).

Service	IDP Rating	2012/2013	2013/2014	2014/2015
		Proposed Budget (Rounded)	Proposed Budget	Proposed Budget
		R' 000	R' 000	R' 000
Water	76	5 200	17 300	17 300
Waste Water Management (Sanitation)	79	5 400	17 800	17 800
Electricity	71	4 900	16 100	16 100
Waste Management	52	3 600	11 800	11 800
Road Transport	59	4 100	13 400	13 400
Sports Parks and Recreation	43	3 000	9 800	9 800
Public Safety (Street Lighting Projects, Traffic and Fire Department projects)	62	4 300	14 100	14 100
Community & Social Services (Libraries, Halls and Municipal Buildings)	58	4 000	13 200	13 200
	500	34 500	113 500	113 500
Support Services (Budget allocation)				
Corporate Services (IT)		2 500	7 500	7 500
Corporate Services (Vehicles)		2 500	7 500	7 500
Budget & Treasury office Health Planning & Development Executive & Council		500	1 500	1 500
	500	40 000	130 000	130 000

The utilisation of the **External Financing Fund** relates to the capitalisation of assets funded directly from external loans. No provision has been made on the 2012/2013 Tabled MTREF for the funding of capital projects from external borrowings.

To assist Council in funding future capital projects, a Capital Replacement Reserve (CRR) was created in the Tabled 2011/2012 Medium Term Revenue and Expenditure Framework and funded from surpluses achieved in the operating budget. This reserve will be funded through cash backed surpluses thus directly through tariffs.

Capital projects budgeted and funded from Grants, Subsidies and Public Contributions may not be commenced with, unless confirmation from the funding source has been received.

All allocations in terms of the Division of Revenue Bill, 2012 have been included in the Tabled 2012/2013 Medium Term Revenue and Expenditure Framework. See detail under Section 11.

10.2 Operating Budget

The following assumptions were used to compile the Operating Budget.

ASSUMPTIONS	2012/2013	2013/2014	2014/2015
National Treasury Guidelines	5,9%	5,3%	4,9%
Interest Rate			
* External loans	11%	11%	11%
Salary increases (as per National Treasury Guidelines)	5%	5%	5%
Average % collection of revenue	98%	98%	98%

With regards to the implementation of Generally Recognised Accounting Practices (GRAP), the following guidelines apply:

All investment interest and the gains on disposal of PPE (Property, Plant and Equipment) are budgeted in the Income Statement.

- ❖ Expenditure can no longer be charged against provisions and reserves. All expenses incurred have been budgeted in the Income Statement.

Internal Charges include the following:

- ❖ Departmental Charges.
- ❖ Radio costs are debited out according to the number of radios per cost centre.
- ❖ IT Services are debited out according to the number of registered network infrastructure users.
- ❖ Audit Services are debited out according to percentage audit functions performed within the primary votes.
- ❖ Personnel Services, Occupational Health, Training and Industrial Relations costs are debited out according to the number of personnel per vote.
- ❖ Office Rental is debited out based on the m² utilized by each official within a department.
- ❖ Stores handling fees are calculated at 8,5%, limited to R5 000 per item (excluding Capital) on a requisition in order to recover stock holding and procurement costs.

The principle of "Zero Based" budget was applied.

A 10% contribution from total electricity operating expenditure is made to Rates and General Services in terms of industry norm.

National Treasury Budget Circular Number 54 (DMS 693476) provides guidance to municipalities for the preparation of their 2011/2012 Budgets and Medium Term Revenue and Expenditure Framework (MTREF).

10.3 Free Basic Services

Indigent support is provided on a universal and targeted approach.

The following are the amounts projected for Free Basic Services using the Target Approach:

Vote	Services	2012/2013	2013/2014	2014/2015
055/077/0	Electricity	1 368 000	1 675 872	1 843 459
<i>Households</i>		3 800	4 232	4 232
060/077/0	Water	1 421 000	1 501 568	1 650 725
<i>Households</i>		790	881	881
033/077/0	Refuse	135 000	189 598	208 557
<i>Households</i>		295	352	352
034/077/0	Sewerage	211 000	300 258	330 283
<i>Households</i>		295	352	352
040/077/0	Rates	350 700	451 126	441 101
<i>Households</i>		295	352	352

The Universal Approach is mainly used in the rural areas, except in respect of electricity. The Universal Approach addresses the non-account holders that are indigent and who reside mainly in the rural areas. Council gives 6 kilolitres of water to all households, refuse removal in denser settlements and basic sanitation is provided through VIPs.

Free electricity (50 kWh) allocations in accordance with the Free Basic Electricity Policy.

The following are the amounts projected for Free Basic Services using the Universal Approach:

Services	2012/2013	2013/2014	2014/2015
Water	R16 530 500	R1 725 100	R18 975 100
Households	83 200	83 200	83 200
Refuse	R 1 064 300	R1 191 000	R 1 334 000
Households	5 050	5 300	5 300
Waterborne sewerage	R 2 368 400	R2 652 000	R 2 970 000
Households	5 050	5 300	5 300
Rates	R 4 745 800	R5 315 000	R 5 952 800
Households	13 475	13 500	13 500

10.4 Property Rates Act: Exemptions, Rebates and Reductions

Section 15	Expected 2011/2012	Budget 2012/2013
	R	R
Agricultural properties 5% Rebate	0	0
Indigent - Universal R60 000 residential properties	4 745 798	5 386 480
Pensioners Rebate	347 412	394 312
Public Benefit Organisations and Sporting Bodies	41 380	46 966
Sub-total Section 15	5 134 590	5 827 758
Section 17		
30% Reduction on Valuation - Public Service Infrastructure	10 129	11 496
100% Reduction on Valuation - Places of worship	1 269 627	1 441 026
Sub-total Section 17	1 279 756	1 452 522
Section 21		
Phasing-in of rates Agricultural	0	0
Phasing in of Rates Trust Land and Tribal Schools	0	0
Phasing in of Rates Public Service Infrastructure	0	0
Sub-total Section 21	0	0
TOTAL	6 414 346	7 280 280
Impermissible first R15 000 on Valuation on Residential Properties	2 645 543	3 002 691

11. OVERVIEW OF BUDGET FUNDING

11.1 Rates and Services Charges

Tariffs for the 2012/2013 financial year are increased by the following percentages as per the table below:

SERVICE	Proposed Tariff Increase
Property Rates	13.50%
Refuse Residential	13.00%
Refuse Other	13.00%
Sewerage	13.00%
Water: Purified Domestic (Average)	13.00%
Water: Purified Other Consumers - High Consumptions (Average)	14.13%
Water: Purified Other Consumers - Low Consumptions	13.00%
Water: Clarified	13.00%
General	5.00%
ELECTRICITY:	
Environmental Levy (from 2 cent to 3.5 cent)	75.00%
Electrification & Rural Subsidy	10.95%
Administration and Service Charges	5.00%
Electricity Energy Tariffs- (Including Environmental Levy)	
Domestic Prepaid (Average)	8.76%
Domestic maximum increase	10.85%
Electricity ENERGY Tariffs- (Excluding Levies, Admin-, Service Charges)	
Comflex prepaid	18.20%
Comflex conventional (exclude monthly service charge)	11.03%
Demflex	11.03%
Enerflex	11.03%

The prepaid revenue neutrality excess charge of 23% for residential purchases and 24.50% for commercial purchases for the current financial year 2011/2012, that was approved in the 2011/2012 budget, needs to be changed for the 2012/2013 MTREF to accommodate advance purchases for the 2013/2014 financial year, reduced to be in line with the NERSA proposed tariffs for the 2012/2013 financial year. Although NERSA has not supplied electricity tariff increases for the outer years, a decision in this regard needs to be made. It is therefore recommended that the increase on prepaid tariffs of 13.50% would be acceptable for prepaid electricity charges in excess of normal monthly purchases.

Billing Tariffs are reflected in **Annexure A (DMS 789696)**. The full tariff of charges including all sundry charges will be finalised and included in the 2012/2013 Adopted MTREF report that will serve at Council in May 2012.

Examples of the effect the above-mentioned tariff increases will have on the monthly consumer account are attached as **Annexure D (DMS 789623)**.

11.2 Grants and Subsidies

All allocations in terms of the Division of Revenue Bill, 2012, have been included in the 2012/2013 Multi-year Operating Budget.

This includes Council's Equitable Share allocation and other allocations from National Government.

The Equitable Share is considered an unconditional grant, and municipalities are free to regard it as general revenue. However, municipalities should prioritise their expenditure budget towards poor households and national priorities such as free basic services.

Type of Grant	Amount
	R
Local Government Financial Management Grant	1 500 000
Municipal Systems Improvement Programme Grant	800 000
Project Management Unit Allocation	2 598 500
Equitable Share	179 139 000
Museum Subsidy	134 000
Primary Health Subsidy	9 311 000
Recapitalisation of libraries	2 784 000
Community Library services grant	621 000
Infrastructure Skills development grant	3 000 000
Expanded public works programme integrated grant	400 000
Total Operating Grants and Subsidies	200 287 500

The Equitable Share is considered an unconditional grant, and municipalities are free to regard it as general revenue. However, municipalities should prioritise their expenditure budget towards poor households and national priorities such as free basic services.

11.3 Salaries and Allowances

A proposed salary increase of 5% in terms of National Treasury MFMA Circular number 59 guideline has been budgeted for the 2011/2012 financial year. The composition of the salary budget was done in accordance with the approved organogrammes approved by Council.

Surcharge on pension funds:

Council received a circular from the Natal Joint Municipal Pension Funds (**DMS 782141**), advising Municipalities of the merger of the Superannuation and Retirement Funds as well as an additional surcharge that will become payable by municipalities with effect from 1 July 2012.

For members of the Superannuation Fund, this additional surcharge that will be payable by Council is 10% of member's pensionable emoluments.

For members of the Retirement Fund, an additional surcharge of 6% for pre 1 July 2002 members' pensionable emoluments is payable by Council.

The surcharge will be levied with effect from 1 July 2012.

Thereafter, with effect from the 1 July 2013 for the next 8 years Council's contribution will increase to 47%.

The table below sets out the contribution rates:

Fund	No of empl	Current contribution 2011/2012		Proposed contribution 2012/2013		Proposed contribution 2013/2014	
		Council	Employee	Council	Employee	Council	Employee
		%	%	%	%	%	%
Superannuation	200	25	9,25	35	9,25	47	9,25
Retirement (pre July 2002)	234	29	8,65	35	9,25	47	9,25
Retirement (post July 2002)	10	13,65	7	35	9,25	47	9,25

An additional amount of R6 274 200 will be required to be budgeted on the 2012/2013 Medium Term Revenue Framework (MTREF). This amount needs to be incorporated into the revenue tariffs that will be approved by Council in March 2012.

The additional amount for the 2013/2014 financial year is calculated at R8,9 million and is based on Council's contribution increasing to 47%

Standby: A travelling allowance of R74,00 (2011/2012 - R70,00) and a subsistence allowance of R47,00 (2011/2012 - R45,00) was budgeted for in order to comply with Council's Standby Policy.

These allowances will have to be adjusted on an annual basis in order to comply with Council's Standby Policy. **(Council Resolution 1240 dated 20 August 2002 RPT 132692).**

11.4 General Expenses - Bulk Purchases

National Energy Regulator (NERSA) has approved an increase of 13,58% for Eskom price of bulk electricity to municipalities.

Mhlathuze Water, Council's bulk water supplier has indicated a tariff increase of 9% with effect from 1 July 2012.

11.5 General Expenses - Other:

❖ Subsistence Allowances

In terms of RPT 150906, Council will be approving an amended policy for the Payment of Subsistence and travelling allowances for employees and Councillors (DMS 751040).

This policy states that the allowances shall increase on 1 July of each year with the average CPI.

The tariffs have been increased by 5% as recommended by NT in their 2012/2013 MFMA budget circular no 59.

	2010/2011	Proposed Tariffs - 2012/2013
	R	R
Daily allowance	100	105
Overnight allowance	135	142
Own accommodation	190	199

The policy further sets out accommodation rates which are applicable to the 2011/2012 financial year and are reviewed annually during the consideration of the annual budget.

	2011/2012	Proposed Tariffs - 2012/2013
	R	R
All employees and ordinary councillors	900	900
EXCO councillors and Section 56 employees	1 500	1 500
Municipal Manager, Mayor / Deputy Mayor and Speaker	2 500	2 500

❖ **Allowances to Councillors**

Budgeted amount includes 60 Councillors of which 11 are full-time. A provision of 5% was made in the budget for increases in allowances. Separate disclosure in terms of Section 17(3) (k) of the Municipal Finance Management Act, 2003 is required.

❖ **Ward Committees**

In terms of Council Resolution 6615 dated 30 March 2010, Council resolved that the Ward Committee members be entitled to an annual increase as per the signed salary and wage agreement applicable to Local Government Sector. An amount of **R606 per month** (2011/2012 = R577) has been budgeted for the 2012/2013 Medium Term Revenue Expenditure Framework (MTREF).

❖ **In Service trainees**

In view of the budget constraints no provision has been made for the payment of monthly travel allowance of in-service trainees in terms of RPT 145664 - Council Resolution 6579 dated 2 March 2010. Departments will be required to identify savings elsewhere on their operating budget and transfer were applicable.

11.6 Cash flow recovery plan

This Tabled 2012/2013 MTREF has taken cognisance of the Cash Flow Recovery Interventions as per Council Resolution 6294 dated 1 September 2009 (RPT 146632).

The following memorandums have been circulated to all staff:

- ✓ DMS 632308 dated 14 August 2009
- ✓ DMS 632299 dated 12 February 2010
- ✓ DMS 658736 dated 17 August 2010
- ✓ DMS 781968 dated 6 February 2012

These memorandums set out expenditure curbing measures to be implemented by management and staff. All management are urged to implement these measures in the 2012/2013 financial year with full force and to furthermore identify any other measures that will assist Council in reducing expenditure.

11.7 Capital funding

The interest rate used for compiling the estimates as follows in respect of loans:

	2012/2013
External Financing Fund	11,0%

The rationale behind the **External Financing Fund (EFF)** is as follows:

Council has been be more aggressive in order to address its developmental backlogs in line with Government's extensive works programme and higher levels of Government funding with regards to borrowings over the previous financial years.

No provision has been made on the 2012/2013 Tabled MTREF for the funding of capital projects from external borrowings.

Council has to ensure that to fund future capital projects, its cash backed reserves are increased. Furthermore, the capital projects as budgeted on **Annexure C** and the draft SDBIP will only commence once funding has been sourced from the relevant financial institution.

The following relates to **Grant Funded and Public Contributed** Capital projects:

All allocations in terms of the Division of Revenue Bill, 2012 have been included in the Tabled 2012/2013 Capital Budget.

Capital expenditure funded from Grants, Subsidies and Public Contributions may not be commenced with, unless confirmation from the funding source has been received.

A breakdown of these allocations is as follows:

Type of Grant	Amount
	R
CRU Programme (Hostel upgrade programme)	8 925 000
Municipal Infrastructure Grant	84 018 500
Expanded public works integrated grant	600 000
Energy demand side management grant	8 000 000
Total Capital Grants	101 543 500

12. EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

Refer to **Annexures B32 - B35 (DMS 783382)** (Tables SA18 - SA20)

13. ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Refer to **Annexure B35 (DMS 783382)** (Tables SA21)

14. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Refer to **Annexures B36 - B38 (DMS 783382)** (Tables SA22 - SA24)

15. MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW

Refer to **Annexures B39 - B44 (DMS 783382)** (Tables SA25 - SA30)

16. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

Not applicable to Council.

17. CAPITAL EXPENDITURE DETAILS

Refer to the following Annexures:

- ❑ Annexure C (DMS 789967)
- ❑ Annexure B7 (DMS 783382) (Table A5)
- ❑ Annexure B8 (DMS 783382) (Table A5A)
- ❑ Annexure B12 (DMS 783382) (Table A9)
- ❑ Annexure B47 (DMS 783382) (Table SA34a)
- ❑ Annexure B48 (DMS 783382) (Table SA34b)
- ❑ Annexure B49 (DMS 783382) (Table SA34c)
- ❑ Annexure B50 (DMS 783382) (Table SA34d)
- ❑ Annexure B51 (DMS 783382) (Table SA35)
- ❑ Annexure B52 (DMS 783382) (Table SA36)
- ❑ Annexure B53 (DMS 783382) (Table SA37)

18. LEGISLATION COMPLIANCE STATUS

❑ **MFMA**

All relevant sections of the MFMA have been complied with except for the implementation of International Accounting Standards.

The MFMA implementation is monitored through regular reporting including:

- Quarterly reviews of MFMA implementation plans and the 12 urgent implementation priorities checklist.
- Monthly returns to National Treasury and monthly reports to the Mayor and Council, as required by section 71.
- Publication of information on the municipality's website (www.richemp.org.za).
- Mid-year budget and performance assessment as required by section 72.

❑ **Municipal Budget and Reporting Regulations**

Section 17 (1) of the MFMA refers to a prescribed format according to which the annual budget is required to be prepared. National Treasury has issued MFMA Circular Number 54 (**DMS 693476**) in which this prescribed format has been set out. Furthermore National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009. These regulations set out the manner in which Municipalities are required to prepare their Budgets and Medium Term Revenue and Expenditure Framework. Council has compiled this report in terms of these regulations. Any shortcomings and outstanding information will be addressed in the final approved budget report.

□ **Other legislation**

The other important pieces of legislation when considering the budget processes are:

- **The Property Rates Act**

Council successfully implemented the Property Rates Act on 1 July 2008. The property valuations were valued as at 1 July 2007.

Council is required by the Act to revalue all properties again and tender procedures are in place to commence this process.

- **The Division of Revenue Bill 2012**

This Act provides the three-year allocations from National Government to Local Government. It sets out all the reporting requirements and conditions relating to the grants. Alongside this, Provincial Departments allocate funding to Local Government by means of a Provincial Gazette.

These allocations are used when preparing the multi-year budget in order to comply with section 18 of the MFMA (relating to reasonably anticipated revenues to be collected). Additional allocations - both nationally and provincially - are sometimes made to municipalities. However, these are not included in the original budget as the allocations are not certain. When these allocations are confirmed they will be included in an Adjustments Budget in accordance with section 28 of the MFMA.

- **The Municipal Systems Act (Act No 32 of 2000), together with the Municipal Systems Amendment Act (Act No. 44 of 2003).**

These Acts form the basis of the links between the budget and the Integrated development Plan (IDP). In particular, the aspects that have been considered in preparing the budget are:

- ❖ Community participation (Chapters 4 and 5);
- ❖ Performance management (Chapter 6), providing also the basis for measurable performance objectives in the Service Delivery and Budget Implementation Plan (SDBIP); and Tariff policy (Chapter 8).

19. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **Annexure J (DMS 789971)**.

FINANCIAL IMPLICATIONS

This is dealt with in detail throughout the report.

LEGAL IMPLICATIONS

This is dealt throughout the report with references to various Acts and regulations.

COMMENTS OF THE CHIEF FINANCIAL OFFICER

At the outset, the Chief Financial Officer must commend the Mayor and the Municipal Manager for the support given in the current difficult economic climate.

For this report, the Chief Financial Officer wishes to express his gratitude and appreciation to all his colleagues in the Finance Department, in particular those who are instrumental in managing and compiling this report.

This direction together with the budget guidelines supplied by National Treasury and the downturn in the economic climate have brought the Municipality to a point of having an overall approach that is more conservative than the past few years, but still optimistic for the outer years.

The following are a few significant points of interest in this budget, which Council needs to be aware of:

- The minimal tariff increase in Rates has over the years resulted in increasing deficit on “Rates and General Services” (Those services that are primarily dependent on Rates income. Since commencing with “tariff pricing strategy” in the 2009/10 financial year the situation is improving. Deficit for 2010/2011 - R92,5 million and for 2011/2012 - R79,7 million and the budgeted deficit for 2012/13 - R26 million. As can be seen the dependence of all Services funded by Rates on other Trading Services is reducing which is a positive step forward. This is primarily achieved by:
 - Increasing the rates base with increases in the rates randage above that of CPI for a five year period to a point where services funded by Rates will be more cost reflective i.e. to bring Rates and General Services to a point where such services are less dependent on the Trading Services;
 - Reducing all non-priority budgets which are not basic service delivery orientated;
 - Increasing various commercial tariffs for Rates & general Services to be more cost reflective of the specific service rendered , but simultaneously keeping the social tariffs sub-economic;
- The overall tariff increases although above inflation, still produce average accounts which are less than other comparable municipalities around the Country;
- The full basket of municipal tariffs provides for free basic services to the indigent and poor consumers;
- There is significant provisions on the operating budget for Repairs and Maintenance of Council's assets;
- The absence of a financial implementation plan approved by Council for the new organogram is placing tremendous strain on the budgeting process. It is recommended that urgent attention be given to ensure the correctly prioritized posts taking basic service delivery as a priority;
- There is evidence that the Municipality's cash flow is improving slightly with the provision of R40 million on the 2012/13 budget for capital funded from Councils own cash reserves;

The recommendations are therefore supported.

RECOMMENDED THAT:

1. the Tabled Multi-year Medium Term Revenue and Expenditure Framework (MTREF) of the municipality for the Financial Year 2012/2013 and indicative for the projected outer years 2013/2014 and 2014/2015 be approved as set out in Budget tables A1 - A10 (**Annexure B1 - B13**) (**DMS 783382**);
2. the Tabled 2011/2012 Integrated Development Plan (IDP) be incorporated into the Tabled 2012/2013 Multi-year Medium Term Revenue and Expenditure Framework (MTREF);
3. the Tabled 2012/2013 Multi-year Medium Term Revenue and Expenditure Framework aligned with the IDP's Developmental Objectives and Goals for the City of uMhlathuze be approved as follows:

	2012/2013	2013/2014	2014/2015
	R '000	R '000	R '000
Income Budget	1 942 152	2 164 655	2 409 840
Expenditure Budget	1 940 080	2 160 140	2 404 742
Surplus	2 072	4 515	5 098
Capital Budget	147 262	233 630	238 754

4. in terms of Section 2(3) of the Local Government: Municipal Property Rates Act, the following property rates for the 2012/2013 financial year be approved:

PREDOMINANT USE	REFERENCE IN RATES POLICY	RATE RANDAGE	RATIO TO RESIDENTIAL TARIFF
Residential Properties	Clause 4.4.1	0,00674	1:1
Business, Commercial and Industrial Properties and Mining	Clause 4.4.2 and 4.4.3	0,01348	1:2
Agricultural Properties	Clause 4.4.4. and 2	0,00169	1:0.25
Agricultural Properties (business)	Clause 4.4.4.3 and 4 and 5	0,01348	1:2
State Trust land	Clause 4.4.5	0,00674	1:1
State Owned Properties	Clause 4.4.7.1	0,00674	1:1
Public Service Infrastructure	Clause 4.4.6	0,00169	1:0.25
Public Benefit Organisations	Clause 7.2	0,00169	1:0.25

5. on application by the relevant rate payers, the following rebates be applied, subject to the provisions contained in the Rates Policy:
 - 5.1 Agricultural properties - 5%
 - 5.2 Public Benefit Organisations - 100%
6. in addition to the reductions in recommendation (5) above and subject to the criteria set out in the Property Rates Policy, a Sporting Body will be rated on the value of the improvements excluding change rooms and store rooms necessary for the sport;

7. in addition to the statutory R15 000 reduction in the valuation on residential properties, a further reduction of R60 000 of the valuation on all developed residential properties valued at R375 000 and below be made;
8. in addition to the reductions in recommendation (7) above and subject to the criteria set out in the Property Rates Policy, an additional R100 000 reduction in the value of the primary residential property, belonging to a pensioner or a social grantee be made;
9. in accordance with the implementation of the universal approach of the indigent policy, improved residential property valued at R75 000 or less will be exempted from refuse and sewer charges. The following sliding scale will be applied for charges on improved residential properties higher than R75 000 on the following basis:
 - 9.1 Properties valued between R75 001 and R150 000 will receive a rebate of 25% in respect of the sewer and refuse charges.
 - 9.2 Properties valued at R150 001 and higher will pay the normal tariff.
10. the amendment of Council's Billing Tariffs, as per **Annexure A (DMS 789696)** be approved;
11. the prepaid electricity tariffs, for excess purchases over the individual consumer's average monthly electricity prepaid purchases for the 2012/2013 financial year and 2013/2014 financial year, be increased by 13.50%;
12. any work, function or tariff not accommodated in the Tariff of Charges be dealt with as cost plus 20%;
13. the property rates and tariff adjustments, as set out above, be dealt in terms of Section 14 of the Local Government: Property Rates Act and Section 24 of the Municipal Finance Management Act, 2003;
14. the contribution of 10,5% from Electricity to Rates and General services be calculated on total electricity operating expenditure;
15. the profit on sale of all erven be allocated on a fifty/fifty basis to the Capital Replacement Reserve and Councils Working Capital;
16. that prior to the commencement of the 2013/14 Budget Process a financial implementation plan be submitted by all Departments to Council for the new organogram approved by Council resolution 7383 on the 2 August 2011;
17. the Rates Policy as contained in **Annexure E (DMS 789516)** be approved;
18. the transfer of funds within functions, in the Operating and Capital Budget, be delegated to the Chief Financial Officer and other Senior Managers concerned, in terms of the Virement Policy and that the effects thereof be incorporated into the Adjustments Budget to be submitted to Council in February 2012 as prescribed in terms of the Municipal Finance Management Act, 2003;
19. capital projects as per the Draft Component 5 of the SDBIP and the detail as contained in Annexure C, that is funded by external loans (EFF) only commence in the 2012/2013 financial year once the funding has been sourced from the relevant financial institution; and

20. in terms of various policies the following increases in allowances are submitted to Council for approval:

	2011/2012 Tariff	Proposed 2012/2013 Tariff
	R	R
Standby - Travel allowance	70	74
Standby - Subsistence allowance	45	47
Subsistence allowances		
• Daily allowance	100	105
• Overnight allowance	135	142
• Own accommodation	190	199
Accommodation		
• All employees and ordinary councillors	900	900
• EXCO councillors and Section 56 employees	1 500	1 500
• Municipal Manager, Mayor/ Deputy Mayor and Speaker	2 500	2 500
Ward committee members	577	606